STATE BONDING PROGRAM UPDATE

Prepared for the
Legislative Finance Committee
by

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INTRODUCTION

The purpose of this report is to provide the Committee with information on Montana's tax supported, general obligation (G.O.) and special revenue bond status. Our bonding program plays an important role in Montana's future. With the option to issue bonds, the state is able to undertake infrastructure improvements that would otherwise be delayed. This report will include an overview of the historic, current, and future Long Range Planning bond obligations and a comparative evaluation of Montana's tax supported bonding program.

LONG-RANGE PLANNING COMMITTEE

The Long-Range Planning Committee is responsible for the oversight of most of the programs that incur long term bonded debt. Over 80 percent of the tax-supported bonded debt issued by the state of Montana must pass before the Committee. All of the programs reviewed by the Long-Range Planning Committee have been granted authority to issue debt in the form of bonds, with the approval of the legislature.

Most of the bonding activity takes the form of G.O. bonds. Backed by a pledge of the full faith, credit, and taxing powers of the state, these bonds and their related debt service costs are paid through the general fund. G.O. bonds are typically used to fund new state infrastructure and repairs and maintenance of the existing state facilities.

The rest of the bonds discussed are considered special revenue bonds. Many of these bonds are supported by revenue from the coal severance tax. Others are supported with loans to individuals, companies, and other Montana Departments for specific purposes. As a rule, these programs are self-sustaining, and the principal and interest payments of the loaned funds repay the bonded debt as well as paying the administrative expenses.

The responsibilities of the Long-Range Planning Committee include the oversight of bonded debt for the following:

Long-Range Building Program,
State Building Energy Conservation Program,
Information Technology Program,
Resource Indemnity Trust Grant and Loan Programs.

LONG-RANGE BUILDING PROGRAM

In 1963, the legislature enacted the Long-Range Building Program (LRBP) to provide funding for construction, alteration, repair, and maintenance of state-owned buildings and grounds. The LRBP facilitates a single, comprehensive, and prioritized plan for allocating the state's resources for capital construction and repair of state-owned facilities. The bonding authority for the LRBP is currently provided for in HB 14. In the 2003 biennium, the legislature approved $23,133,000[1]

[1] Information provided by Kathy Willis, DOA, shows that the total authority granted in the 57th legislature's HB 14 was $25,025,286. $1,892286 of the total authority was given for the Information Technology Program, which will be discussed later.

of bonding authority. This was a reduction of 31 percent in bonding from the 1999 biennium's authority of $33,403,750.

The LRBP bonds are typically issued over a three-year period. Issuance of those bonds authorized by the 56th Legislature began in May of 1999 with the final issue scheduled for May of 2002; issuance of the bonds authorized by the 57th Legislature is scheduled to begin in May 2002 with the final issue occurring in 2004. Currently, the LRBP bonding program has a principal balance of $150,565,000,[2] and the unused authority is $27,729,529.

STATE BUILDING ENERGY CONSERVATION

The State Building Energy Conservation Program (SBECP) was established by the 1989 legislature to improve energy conservation through the replacement and upgrading of the internal environment systems of state buildings. The Department of Environmental Quality (DEQ) administers this program, and the bond authority of $3 million is granted in HB 12 for the 2003 biennium. The overall bond authority of the program amounts to $9 million, and currently $1.75 million has yet to be issued. As required by code, the DEQ reviews all capital projects for increased energy efficiency. When the resulting energy savings are sufficient, SBECP bond proceeds are made available to co-fund the project. In turn, the dollar value of the energy savings are re-deposited into the LRBP and held for use in future projects. At this time, the SBECP has issued five G.O. bonds, and has an outstanding principal balance of $4,315,000.[3]

INFORMATION TECHNOLOGY BOND PROGRAM

The 57th Legislature recognized the importance of Montana's information needs in House Bill 188 during 1997 Legislative session. The bill provided the means by which the state could fund new Information Technology (IT) projects. The 1997 Legislature authorized $43.0 million, the 1999 Legislature authorized $18.8 million, and the 2001 Legislature authorized another $1.9 million in G.O. bonds for these projects. Primarily, these funds have been used to replace and upgrade antiquated IT systems, many dealing with state personnel, accounting, budgeting, revenue collection, and tax administration systems. The IT program currently has a bond principal balance of $51.431 million. Most of the 57th Legislature bond authority of $1.9 will be issued May of 2002, and the remainder will be issued at a later date.

RESOURCE INDEMNITY TRUST, GRANT, AND LOAN PROGRAMS

The Resource Indemnity Trust Grant and Loan Programs (RITGL) are made up of a number of funding sources. The combination of programs makes a complex, yet effective, funding source for Montana's water infrastructure requirements. The bonding authority is available to many different programs including the Renewable Resource Loan Program, the Drinking Water Revolving Fund Program, and the Wastewater Revolving Fund Program. The Department of Natural Resources and Conservation (DNRC) administers all these programs.

[2] Balance includes LRBP bonds from listed in the 2000 CAFR, less the FY2001 principal payments, plus the 2001B issue.
[3] This balance includes the issue of series 2001D.

Renewable Resource Loan Program

The Renewable Resource Program (R.R.) was started in 1983 to assist communities, private companies, and individuals in meeting their funding needs for water, wastewater, dam, and irrigation projects. The R.R. is funded with G.O. bonds, issued for loans to private companies and individuals, and coal severance tax bonds, issued for community funding.

At this time, the R.R. private loan program has an outstanding G.O. balance of $13.922 million.[4] The bond authority is established in MCA title 85, chapter 1, part 624, where the 1999 legislature increased the program authority from $10 to $20 million. Currently, there is an unused authority of $6.078 million. This program is structured so that the individual loan recipients repay the bond obligations. As such, the state does not need to use general fund dollars to repay the bonds.

The state of Montana issues coal severance tax bonds and taxable bonds to make loans to communities and private companies for water projects. Over the past few years, most of the funds have been directed towards dam and irrigation projects. A total bonding authority of $250 million is established in MCA title 17, chapter 5, part 719. At this time, the program has principal balances of $50 million dollars and an unused authority of $102.705 million. Currently, the balance of the public loans issued with bond funds is $46.8 million; public loans against the latest bond issues have not yet been completed.

The Drinking Water Revolving Fund Program

The Drinking Water Revolving Funds Program (DWRF) is, as are all revolving funds, a self-supporting program. The program issues G.O. bonds to match federal funds. The state is required to provide a match of 20 percent for all funds provided by the federal government for the DWRF. These funds are loaned to communities for water projects. The borrowing communities pay off the interest and principal of the G.O. bonds through their loan payments; the state does not use general fund money to pay the debt. The federal funds are used to create more lending opportunities

The DWRF is authorized $20 million in bonding authority in MCA title 75, chapter 6, part 227. At this time, the program has used $8.745 million of that authority. Currently, the program has an outstanding principal balance of $8.635 million.

Wastewater, Nonpoint Source (Water Pollution Control) Revolving Fund Program

Like the DWRF, the Wastewater Revolving Fund Program (WWRF) is a self-sustaining program. In this case, the match to federal funds is 17 percent. The G.O. bond funds are loaned out to communities for wastewater and water pollution control projects. Again, the communities repay the G.O. debt obligations through their loan payments, and the state is not required to make bond payment through the general fund.

[4] This balance includes three issues, 2001A, 2001E, and 2001F amounting to $5.265 million.

The WWRF was granted a total of $30 million dollars in MCA title 75, chapter 5, part 1122. The WWRF program has an unused authority of $12.915 million. Currently, the outstanding bond principal balance is $15.18 million.

A summary of all the bond obligations associated with the Resource Indemnity Trust Grant and Loan Programs is shown in Table 1.

Table 1
Total Current Bond Obligations
Resource Indemnity Trust Grant and Loan Program

Program	Amount Issued Currently Active (Millions)	Interest Range Percent	Principal Balance 06/30/00 (Millions)
R.R. Private Loan	$16.550	4 to 8	$13.922
R.R. Coal Severence Tax Bonds	67.885	4.25 to 9.5	50.08
DWRF	8.745	3.6 to 5.6	8.635
WWRF	17.085	3.9 to 6.8	15.900
Total Bonds	$110.265		$88.537

Overall Status Summary

The current balance of Long-Range Planning bonded debt stands at $294.847 million. The state pays between four and eight percent for this debt. Approximately 30 percent of the debt is not paid directly from the general fund despite the fact that the obligations are pledged with tax dollars.[5] A complete list of the Long Range Planning Committee bonds is seen below in Table 2.

Table 2
Long Range Planning Committee
Bonded Debt

Program	Amount Issued Currently Active (Millions)	Interest Range Percent	Principal Balance 06/30/00 (Millions)
LRBP	$225.290	4 to 8	$150.565
SBECP	7.250	4 to 4.75	4.315
RITGL	110.265	3.6 to 9.5	88.537
IT	60.190	4 to 5.5	51.430
Total Bonds	$402.995		$294.847

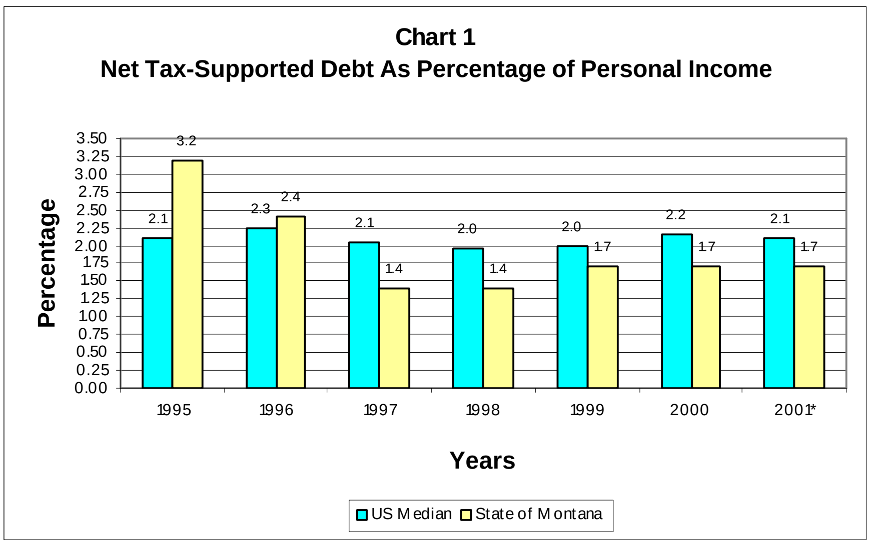
Tax-Supported Debt

When looking at Montana's bonded debt, we must keep in mind that behind this debt is the full faith, credit, and taxing powers of the state. The Long Range Planning Committee reviews the majority of this debt, yet there are several additional state bonds that did not go through the

5 The bonded debt associated with the programs administered by the DNRC, $88.537 million, is supported by the interest and principal payments from the programs' loans. Anna Miller, Financial Advisor DNRC, provided all information on bond authority balances, bond principal balances, interest rates, and general program details for the DNRC bonded water programs.

Committee. These include highway revenue bonds, administered by the Department of Transportation, and state Hospital Project and Developmental Center Project bonds, administered by the Department of Public Health and Human Services. Each of these issues is considered a special revenue bond issue. Combined, these issues have a current principal balance of $65.295 million. This represents 17.3 percent of the state's total bonded debt program; the remaining 82.7 percent is the responsibility of the Long Range Planning Committee.

Moody's Investor Service tracks and rates state tax-supported debt. Each year Moody publishes their findings in a Debt Medians report. Their report includes all the bonded debt sources mentioned above and adds state Capital Leases to the total.[6] This report contains calendar year totals for existing net tax-supported debt. At the end of calendar year 2000, Montana was shown to have $325.893 million in outstanding tax supported debt.[7] This equates to a per capita debt obligation of $361.[8] Additionally, Moody calculates the 2000 net tax supported debt as a percent of 1999 personal income. Montana spends 1.7 percent of their personal income on net tax supported debt. This is positively compared to a U.S. median of 2.1 percent. The range varies between 11 percent in Hawaii to 0.1 percent in Nebraska; Montana falls close to the lower end of the series. Over the past decade, Montana has only twice exceeded the median comparison of net tax supported debt to personal income, in calendar years 1995 and 1996. Chart 1 provides a seven-year comparison of U.S. median and Montana net tax supported debt to personal income, using projections for the 2001 comparison.



* All numbers represent prior year actuals.

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[6] Maria Coritsidis, Moody's Investors Services, provided a complete list of the tax-supported debt used in the Moody calculations.
[7] This amount includes $3 million in Capital Leases.
[8] Population is based on 2000 Census Bureau population figures. The census lists Montana's 2000 population at 902,195. The Legislative Fiscal Division chooses to use 890,000 as their population estimate. Using the MT LFD population estimate, the per capita figure would be $366.